Joint Committee on Taxation
October 23, 1989
JCX-68-89

Treatment of Investment Expenses Under the Individual Alternative Minimum Tax[1]

Present Law

Under present law, individuals are subject to an alternative minimum tax imposed at a 21-percent rate on the taxpayer's alternative minimum taxable income. In computing alternative minimum taxable income, no deduction is allowed for miscellaneous itemized deductions. Investment expenses deductible under section 212 are generally treated as a miscellaneous itemized deduction and thus are not deductible in computing the minimum tax. Under the regular tax, miscellaneous itemized deductions (including investment expenses) are deductible only to the extent they exceed two percent of the individual's adjusted gross income.

Explanation of Proposal

Under the proposal, an individual would be allowed to deduct as an itemized deduction in computing the minimum tax, investment expenses which are deductible in computing the regular tax to the extent they do not exceed the individual's net investment income.[2]

Effective Date

The proposal would apply to taxable years beginning after December 31, 1989.

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[1] This issue was added to the list of items scheduled for a hearing on October 26, 1989, before the Ways and Means Subcommittee on Select Revenue Measures. See JCX-66-89, October 20, 1989, for a description of the other items scheduled for the October 26 Subcommittee hearing.

[2] Under present law, investment interest is deductible only to the extent of the individual's net investment income. Deductible investment expenses reduce net investment income in computing the deduction for investment interest. Under the proposal, the deduction for investment expenses would be dependent upon the taxpayer's deductible investment interest. The proposal does not specify how the interaction between the determination of the taxpayer's allowable deduction for investment interest and the deduction for investment expenses would be resolved.

J 862-81
H 782-62